

**LEGISLATIVE SERVICES AGENCY
OFFICE OF FISCAL AND MANAGEMENT ANALYSIS**

301 State House
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FISCAL IMPACT STATEMENT

LS 7106

BILL NUMBER: SB 498

NOTE PREPARED: Jan 17, 2004

BILL AMENDED:

SUBJECT: Police and Firefighter Pensions.

FIRST AUTHOR: Sen. Broden

BILL STATUS: As Introduced

FIRST SPONSOR:

FUNDS AFFECTED: **GENERAL**
DEDICATED
FEDERAL

IMPACT: Local

Summary of Legislation: This bill authorizes the legislative body of a second class city to adopt an ordinance to compute the benefits paid to the members of the city's public safety pension funds based on the average of the member's salary for the highest paid three years rather than the salary of a first class police officer or firefighter.

Effective Date: July 1, 2004.

Explanation of State Expenditures:

Explanation of State Revenues:

Explanation of Local Expenditures: For the 1925 and 1937 Funds, it is estimated that there would be a decrease in the unfunded actuarial liability of approximately \$98.3 M. The decrease is the result of the net effect of the increase in benefits due to the use of the average salary of the rank, the decrease in benefits due to the reduction in the benefit formula from as high as 74% down to 50%, and the change in the cost of living adjustment (COLA).

For the second class cities, the estimated fiscal impact is shown in the table below:

Estimated Increase in Unfunded Accrued Liability	\$55.0 M
Estimated Increase in Annual Funding	\$4.6 M
Employer Contribution %*	19.2%
*Although this is a decline in the contribution as a percent of payroll, payroll for second class cities is now the "salary of the rank" which is assumed to be 20% greater than 1 st class salary.	

These estimates are calculated under the assumption that all second class cities would adopt an ordinance as

permitted under the bill.

It should be noted that the current 1977 fund is a pooled fund where all cities and towns have identical benefit provisions and identical funding requirements (employers contribute at the rate of 21% of first class salary and members contribute at the rate of 6%). Under this bill, the 1977 Fund would have a different pooled funding arrangement for the second class cities that adopt an ordinance as permitted by this legislation.

Explanation of Local Revenues:

State Agencies Affected: The Public Employees' Retirement Fund as administrators of the 1977 Fund.

Local Agencies Affected: The second class cities which adopt an ordinance to implement this proposal.

Information Sources: Doug Todd of McCready & Keane, Inc., actuaries for PERF, 576-1508.

Fiscal Analyst: James Sperlik, 317-232-9866.

DEFINITIONS:

Contribution Rate: As to the employee, a factor, such as a percentage of compensation, used in determining the amounts of payments to be made by the employee under a contributory pension plan. As to the employer, a factor, calculated in an actuarial valuation, to be used in determining the employer's annual normal cost contribution under a pension plan. An employer's contribution rate may be either a percentage to be applied to the total compensation paid to covered employees for a particular year, or an amount in dollars to be applied to the total number of covered employees at a particular date.

Funding: A systematic program under which assets are set aside in amounts and at times approximately coincident with the accruing of benefit rights under a retirement system.

Unfunded Actuarial Liability (sometimes called the unfunded liability) of a retirement system at any time is the excess of its actuarial liability at that time over the value of its cash and investments.